HOW THE STATES MAKE INTERSTATE RATES[1]

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The widespread efforts of state legislatures and railroad commissions within the past two years to reduce railroad rates have presented many interesting phases to public observation. The extent and severity of the proposed reductions, the novel expedients adopted to prevent or to make difficult a review of the state action in the federal courts, the resulting conflict of judicial authority and the recent decision of the Supreme Court of the United States holding these expedients unconstitutional have kept the movement constantly in the public mind. Out of the many questions which discussion of the situation has evolved none are more interesting or important than those relating to the effect of state-made rates upon rates for interstate transportation. It is the purpose of this article not to show that the rate-making power of the states should be diminished or destroyed, or that this object, if desirable, can or cannot be accomplished under the federal constitution, but merely to state and to illustrate the proposition that, in fact, the states *do* make interstate rates.

The great movements of traffic in this country are eastward and westward. The volume of the westward movement has always been high-class merchandise,—dry goods, wearing apparel, groceries, hardware, and like articles. Formerly this was all produced in the East or imported through Atlantic ports; it is only within recent years that the larger cities in the West have become manufacturing centers.

When the evolution of our rate fabric began New York, Boston, Philadelphia and Baltimore were the bases of supply. Chicago, St. Louis, St. Paul, Omaha, and Kansas City owe their development as trade centers primarily to strategic location at the head of navigation, or at points where the trans-continental trails left the watercourses for the West, Northwest, and Southwest. They com-

[1]Much of the matter and all the maps for this article were prepared by Mr. Theodore Brent, of the Traffic Department, Rock Island-Frisco Lines, Chicago.

menced as outfitting points for prospectors and settlers; their business was that of distributing through the new Western country the articles of commerce manufactured in or imported through the East; and that still constitutes a large part of their trade.

When railroads found their way to Chicago and St. Louis their rates were fixed largely by the water competition which met them on their arrival. Gradually railroads were constructed westward from these points and, as they reached common territory, the force of competition began to be felt. Intense rivalry developed between the distributing houses of Chicago and St. Louis, and pressure was brought to bear upon the railroads, both East and West, to keep the rate fabric so adjusted that goods, stored in and distributed from either city, might be laid down at any of the Missouri River points at substantially the same freight cost. The class-rates from New York to Chicago thus became the basis of measurement for all class-rates. The St. Louis rate was a fixed per cent higher, approximating the difference in the cost of reaching that point by water. The rates between the Mississippi River and Chicago on the one hand and the Missouri River on the other were fixed not at what would be a reasonable rate for the distance, but at what it was necessary to maintain in order that St. Louis and the lines leading through St. Louis might compete with Chicago for the expanding business of Kansas City, Atchison, St. Joseph, and Omaha.

In the territory west of the Missouri River the same process has been repeated, and rates are maintained in such relation not only that Kansas City, St. Joseph and Omaha may compete with each other, but that goods distributed from St. Louis and Chicago, as well as from the Eastern cities, may be handled through either Kansas City, St. Joseph or Omaha and laid down at the several consuming points at practically the same freight cost. In the Northwest this same competitive adjustment is maintained between Chicago, Duluth, Minneapolis and St. Paul. In the Southwest, Chicago, St. Louis and Kansas City must be kept on an even keel, and when Texas is reached, the whole adjustment is modified to meet the competition of coastwise steamers plying from New York to Galveston. To Colorado and Utah, the routes through all these gateways are kept in constant adjustment, and the rates so arranged that Denver and Pueblo are enabled to do a distributing business,

What is true of westbound merchandise is equally true of the movement to the East of the great staples raised in the West. The grain territory is so divided and rates are so made that grain may move freely to the Mississippi River, the lakes and the gulf, through the great storage centers of Minneapolis, Duluth, Chicago, St. Louis, Omaha and Kansas City. In like manner live stock rates are so arranged that the traffic may move freely to the rival packing centers of Kansas City, St. Joseph, Omaha, St. Paul, Chicago and St. Louis.

These rate relations are not the work of the traffic departments of the railroads. They do not exist by virtue of acts of legislatures or of orders of commissions. They are the resultants of the commercial growth of the country. Trade is established along these lines; industries and communities are founded on the basis of these adjustments, and their existence and prosperity depend upon the continuance of these rate relations. They are the controlling facts in all rate disputes—more stubborn than distance and as immovable as mountains.

There is hardly a rate on any article of commerce but feels the force of these competitive conditions. They absolutely dictate the traffic policy of the railroads operating in the territory affected by them. The carrier makes no rates that are not effectively moulded by these conditions, and the rate-making power of the Interstate Commerce Commission itself cannot ignore them. The only rate-regulating body that makes rates without reference to these commercial conditions is the legislature or the railroad commission of a single state. Its field of operations includes but a fraction of the territory whose traffic is controlled by these conditions; contains but few of the larger distributing centers which compete for that traffic; and is usually circumscribed, either wholly or in part, by imaginary boundaries fixed without regard to factors which exercise controlling influence upon the trend of traffic and of rates. The influence of lakes, of rivers and canals, the competition of rival markets, the relation between manufacturer and dealer, and other like forces that, in the making of rates, confront the traffic officer of an interstate railroad and the Interstate Commerce Commission itself, enter but slightly, if at all, into the calculations of the state. In every case, in the exercise of its rate-making power, distance is the one factor given serious consideration; and

the result of its labors is invariably the production of a distance tariff.

This state distance tariff, is, on its face, a simple and a harmless thing. The right of the state to make it and to change it at its will seems to be amply buttressed by the conceded principle of law that the power of Congress over interstate commerce leaves untouched the power of the states to regulate their purely internal commerce. And no simpler or less obnoxious method of exercising that power would seem possible than to prescribe the rates at which traffic shall move from point to point within the state.

But when the traffic officer of an interstate railroad comes to apply this state distance tariff, made for state use on purely local considerations, to the traffic that actually moves over his rails, he finds that he cannot confine its influence to traffic within the state, and that, against his will and without his action it readjusts his rates into and out of and through the state, and determines his revenue on traffic that never traverses the borders of the state. This is illustrated by the action of the following states:

Missouri and Iowa

Missouri has a far-reaching control over interstate rates by reason of the situation of the state at the point of least distance between the Mississippi River—the basing line for rates from the East—and the Missouri River, the base line for rates to the West.

There are three factors which go to make up the rates from the East to the Western territory—whether or not they are published as through rates—namely, the rate from the seaboard to the Mississippi River or Chicago; the rate from the latter base line to the Missouri River; and the rate west of the Missouri River. Reduce the rate between the Mississippi River and the Missouri River and you reduce the rates on all business either locally or through or beyond these base lines.

The first-class rate between the Mississippi and Missouri Rivers practically determines the interstate rates on all classified articles moving between the East and West. It is at present 60 cents per 100 pounds, this being the figure fixed by the Missouri Railroad and Warehouse Commission as a reasonable maximum rate for the short-line haul of approximately 200 miles across the state from the Mississippi to the Missouri—the distance from Hannibal to St.

Joseph being 196 miles, and from Hannibal to Kansas City, 199 miles. Note the chart:

Though this rate is based on the distance of 200 miles, competitive conditions outside the state apply it at once to all hauls across the state, no matter what their distance. The short line from St. Louis to St. Joseph is 302 miles, and lines operating between those cities would be privileged, under the commission's maximum scale, to charge 74 cents, first class. The short line between St. Louis and Kansas City is 277 miles, for which distance the Commission's scale is 71 cents, first class. But here considerations enter which are entirely outside the horizon of the Missouri commission. The rates from New York to Hannibal and St. Louis are the same. There are routes leading from New York to St. Joseph and Kansas City, through both Hannibal and St. Louis. Kansas City and St. Joseph compete in the same trade territory, and the rates to both points from New York must be kept the same through all gateways. Consequently the Commission's maximum rate for the shortest distance becomes the rate between all four crossings:—

Thus the element of distance even between points within the state is immediately modified by outside forces, controlling with the carriers, but which exerted no influence upon the commission when it fixed the nominal measure of the rates.

Just north of Missouri lies the State of Iowa. To the untutored mind there would seem to be no reason why traffic of the same class should move within the State of Iowa for a less charge than within the State of Missouri. Yet the maximum charge under the Iowa distance tariff for hauling first-class merchandise 200 miles is 40 cents, as against 60 cents fixed by the Missouri tariff. The railroads in Iowa must haul the same class of merchandise 350 miles to be entitled to charge 60 cents, but, significantly enough, the 350 miles measure the distance in Iowa between the Mississippi and Missouri rivers, so that the rate between the two base lines is the same in both states. Should Missouri adopt the Iowa scale, the Missouri rate from the Mississippi River to the Missouri River, between all the points in Missouri that we have been considering, would, for the reasons already given, at once become 40 cents, regardless of distance.

The effect within the State of Missouri, however, is only the beginning. The rate between the Mississippi and Missouri rivers being, as previously explained, one of three factors of a through adjustment from points of production in the East; the rates from the East to all Mississippi River crossings being the same; there being competitive routes from the East to all Missouri River points passing through all of these Mississippi River crossings; and the merchants and manufacturers in the Mississippi River cities maintaining trade relations with all of the Missouri River cities and with the territory reached through them; it follows that the rate between Dubuque, Ia., and Kansas City, Mo., cannot be higher than the rate between Dubuque and Council Bluffs (both points within the State of Iowa); nor can the rate between St. Louis, Mo., and Omaha, Neb., be higher than the rate between St. Louis and Kansas City or between St. Louis and St. Joseph (movements wholly within the State of Missouri).

Thus from the act of the Missouri commission in reducing its distance tariff from 60 cents to 40 cents for 200 miles, the following results directly flow:

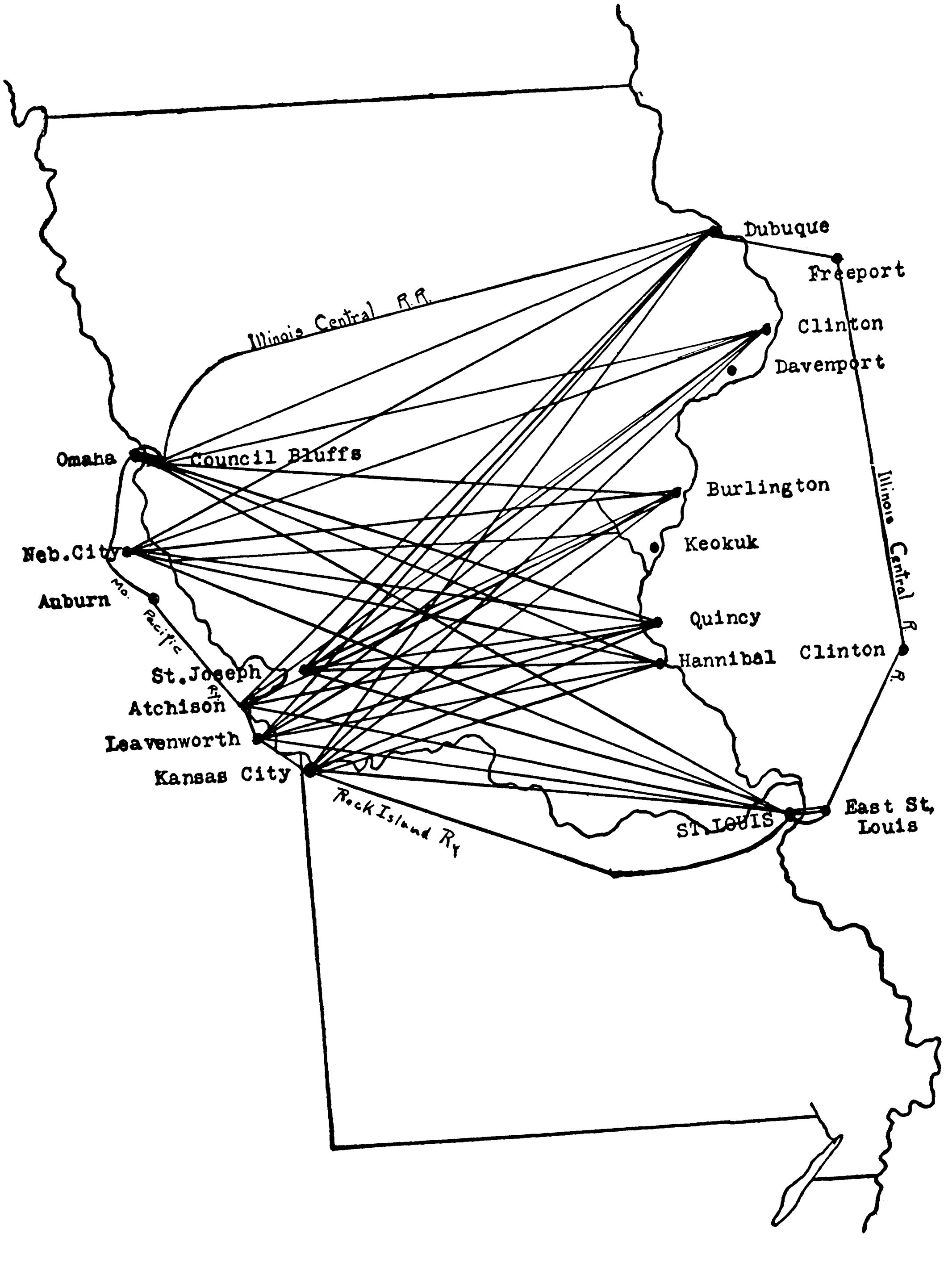
(*a*) The local *Missouri* rate from points on the Mississippi River to points on the Missouri River, regardless of mileage, is reduced from 60 cents to 40 cents;

(*b*) The local *Iowa* rate from points on the Mississippi River to points on the Missouri River (say Clinton to Council Bluffs, 350 miles) is reduced from 60 cents to 40 cents;

(*c*) The *interstate* rate from points on the Mississippi River in Missouri to points on the Missouri River in Iowa or Nebraska (say St. Louis to Council Bluffs or Omaha) is reduced;

(*d*) The *interstate* rate from points on the Missouri River in Missouri to points on the Mississippi River in Iowa (say Kansas City to Davenport) is reduced.

Not only this, but this Missouri commission rate for 200 miles fixes the maximum rate which the Missouri Pacific Railway may charge for its haul of 488 miles between St. Louis and Omaha, through Missouri, Kansas and Nebraska; and in like manner the rate of the Illinois Central Railroad for its haul of 703 miles between the same points, through the States of Missouri, Illinois and Iowa. See the map.

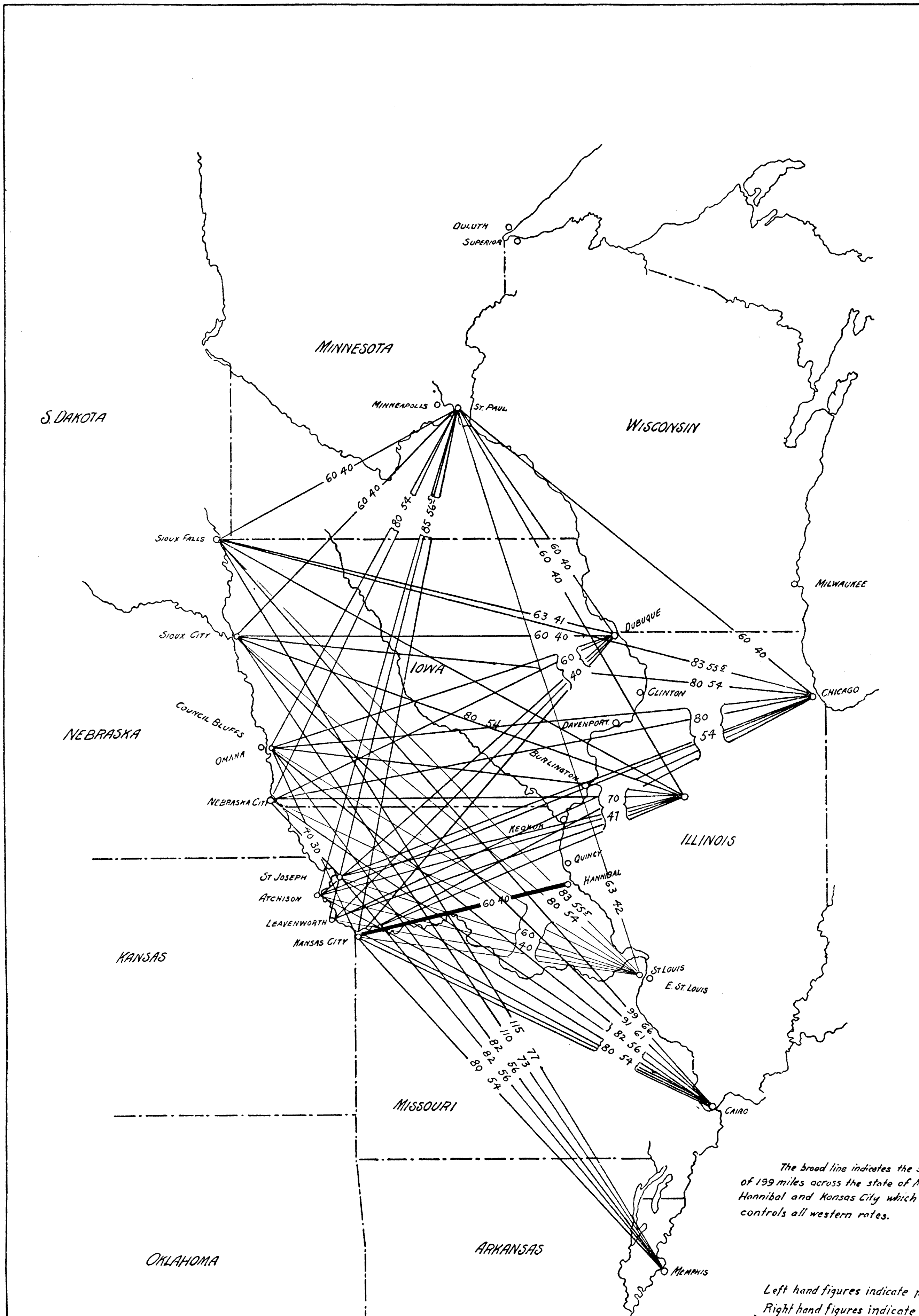

Dubuque
Freeport
Illinois Central R.R.
Clinton
Davenport
Omaha
Council Bluffs
Burlington
Illinois Central R.R.
Keokuk
Neb. City
Auburn
Mo. Pacific Ry.
Quincy
Hannibal
Clinton
St. Joseph
Atchison
Leavenworth
Kansas City
Rock Island Ry
St. Louis
East St. Louis

Thus, within the territory enclosed by the Illinois Central, Missouri-Pacific and Rock Island as outlined on the map, any reduction made by the Missouri commission in the class rates for the 200-mile distance between Hannibal, Mo., and Kansas City, Mo., has the effect of bringing all rates to the level so fixed, not only between the crossings themselves but, with very slight exceptions, between all intermediate points.

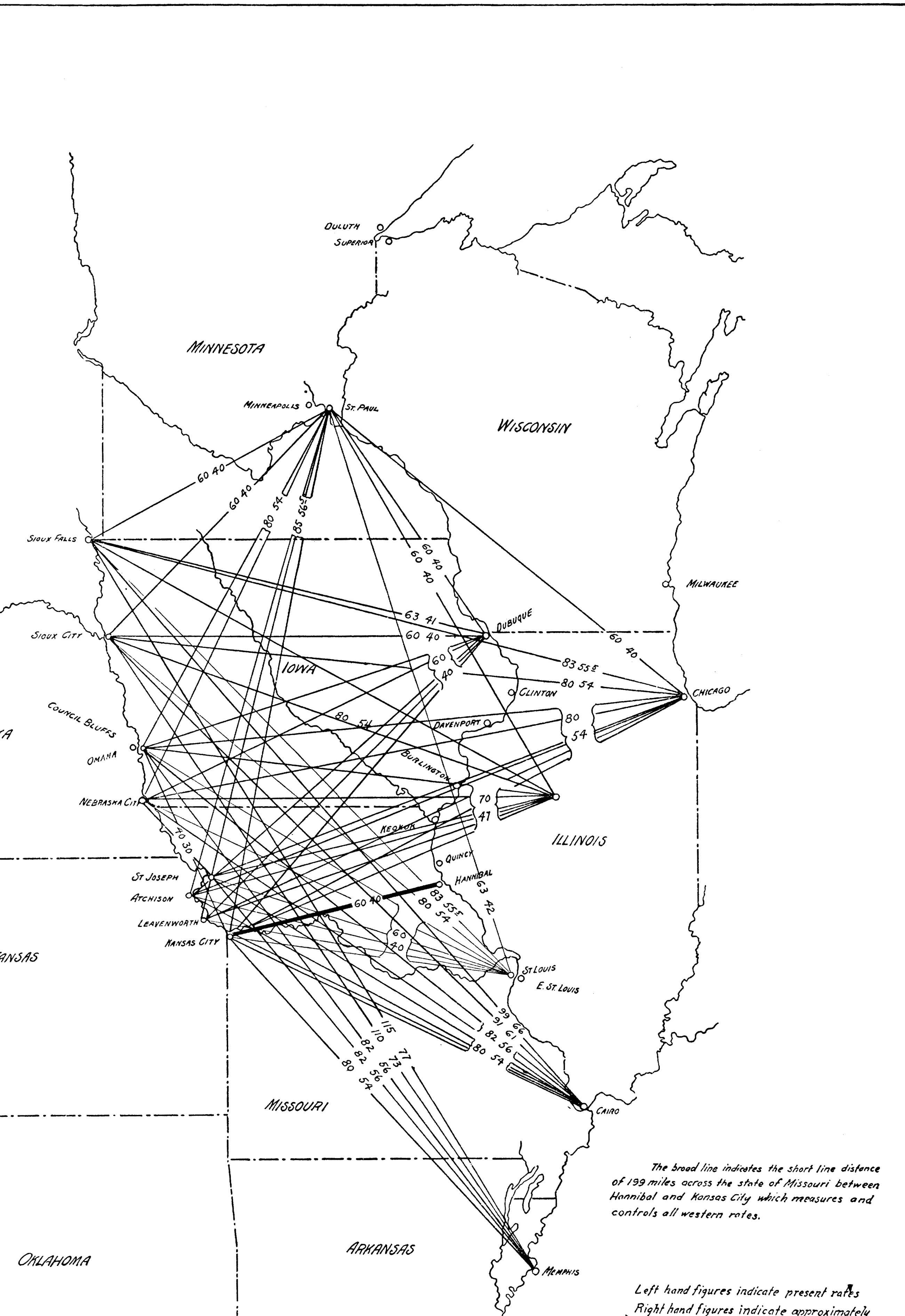
This, again, is but a preliminary glimpse at the inevitable results of this action of the Missouri State Commission.

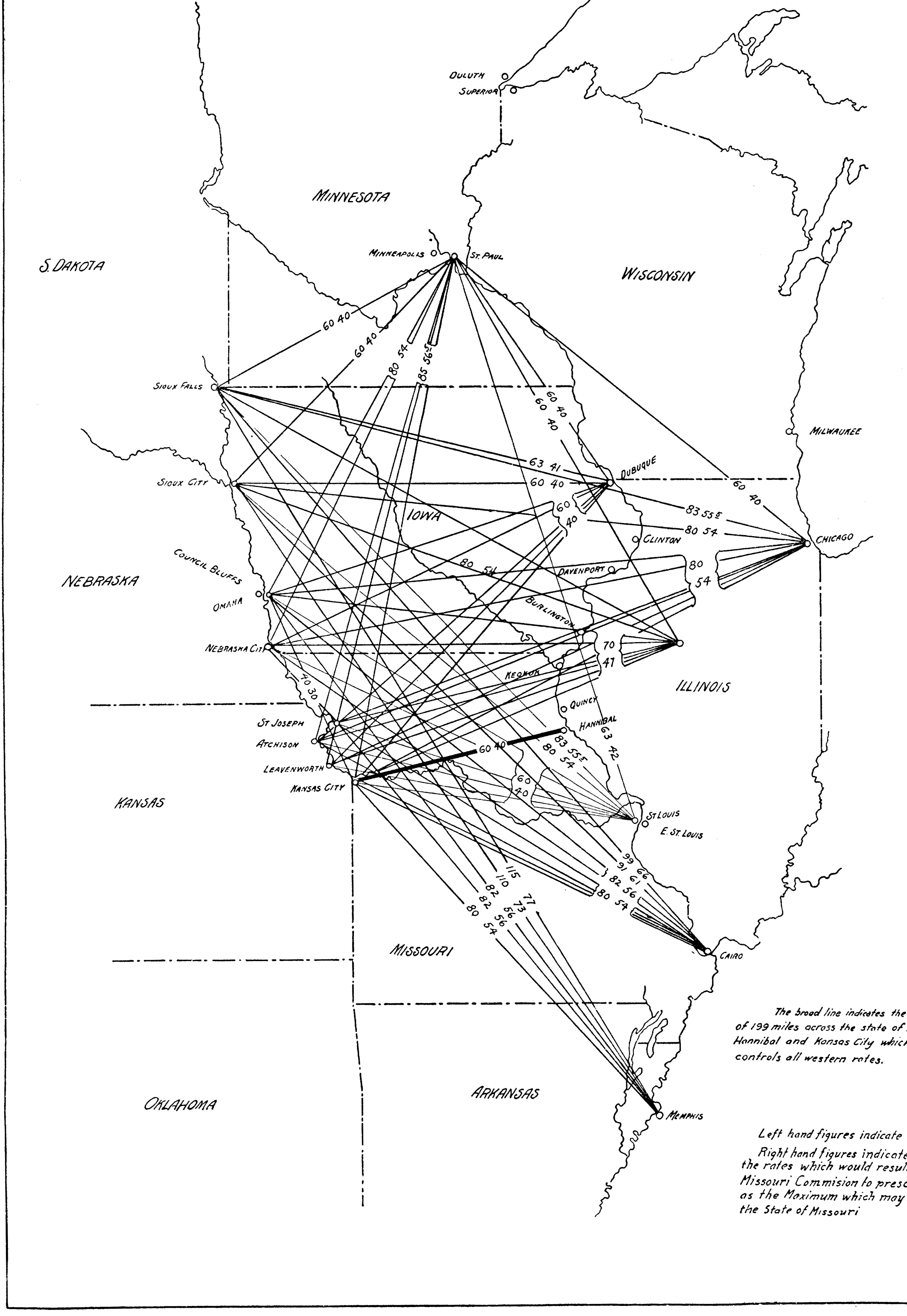
The first-class rate from Chicago to the Missouri River has for many years been 20 cents per 100 pounds higher than the rate from the Mississippi River. The competitive adjustment would require that there be no greater difference under the new scale. Indeed, the rates from the seaboard to Chicago and the Mississippi River remaining as at present, it is doubtful if Chicago and the routes through Chicago could compete should the present arbitrary difference be maintained under the reduced adjustment. The present rate of 80 cents, first class, from Chicago, is one-third higher than the rate from the Mississippi to the Missouri River. It is probable that not more than one-third greater would be practicable under the lowered scale, which would make the first-class rate from Chicago 54 cents per 100 pounds.

Peoria must be maintained at one-half the difference between Chicago and the Mississippi River. Milwaukee must be kept on the same rate basis as Chicago. The rates from Minneapolis and St. Paul must be kept the same as Chicago to the Upper Missouri River crossings (Omaha, Council Bluffs and Nebraska City), and 5 cents higher than Chicago to the lower crossings (St. Joseph, Atchison, Leavenworth and Kansas City). Duluth takes fixed arbitraries above St. Paul. The intervening territory in Wisconsin, between Milwaukee and St. Paul, is built on arbitraries over either Chicago, Milwaukee or St. Paul, and would call for readjustment accordingly. From Memphis, Tenn., not higher than Chicago rates can be maintained to Lower Missouri River crossings, and to the upper crossings the first-class rate from Memphis cannot be more than two cents higher than Chicago. To Sioux City the rate from Chicago, St. Louis and Peoria must be kept the same as from Chicago to Omaha. The first-class rate from Memphis to Sioux City is to-day 30 cents higher, and from Minneapolis and St. Paul



MINNESOTA
S. DAKOTA
WISCONSIN
IOWA
NEBRASKA
ILLINOIS
KANSAS
MISSOURI
OKLAHOMA
ARKANSAS
DULUTH
SUPERIOR
MINNEAPOLIS
ST. PAUL
SIOUX FALLS
SIOUX CITY
COUNCIL BLUFFS
OMAHA
NEBRASKA CITY
ST JOSEPH
ATCHISON
LEAVENWORTH
KANSAS CITY
MILWAUKEE
DUBUQUE
CHICAGO
CLINTON
DAVENPORT
BURLINGTON
KEOKUK
QUINCY
HANNIBAL
ST LOUIS
E. ST. LOUIS
CAIRO
MEMPHIS
The broad line indicates the
of 199 miles across the state of
Hannibal and Kansas City which
controls all western rates.
Left hand figures indicate
Right hand figures indicate


MINNESOTA
WISCONSIN
IOWA
ILLINOIS
MISSOURI
ARKANSAS
OKLAHOMA
Duluth
Superior
Minneapolis
St. Paul
Milwaukee
Sioux Falls
Sioux City
Dubuque
Chicago
Clinton
Davenport
Council Bluffs
Omaha
Burlington
Nebraska City
Keokuk
Quincy
St Joseph
Atchison
Hannibal
Leavenworth
Kansas City
St Louis
E. St. Louis
Cairo
Memphis
The broad line indicates the short line distance of 199 miles across the state of Missouri between Hannibal and Kansas City which measures and controls all western rates.
Left hand figures indicate present rates
Right hand figures indicate approximately



DULUTH
SUPERIOR
MINNESOTA
MINNEAPOLIS
ST. PAUL
S. DAKOTA
WISCONSIN
SIOUX FALLS
MILWAUKEE
SIOUX CITY
DUBUQUE
IOWA
CHICAGO
CLINTON
COUNCIL BLUFFS
DAVENPORT
NEBRASKA
OMAHA
BURLINGTON
NEBRASKA CITY
KEOKUK
ILLINOIS
QUINCY
ST JOSEPH
HANNIBAL
ATCHISON
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KANSAS CITY
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the rates which would result
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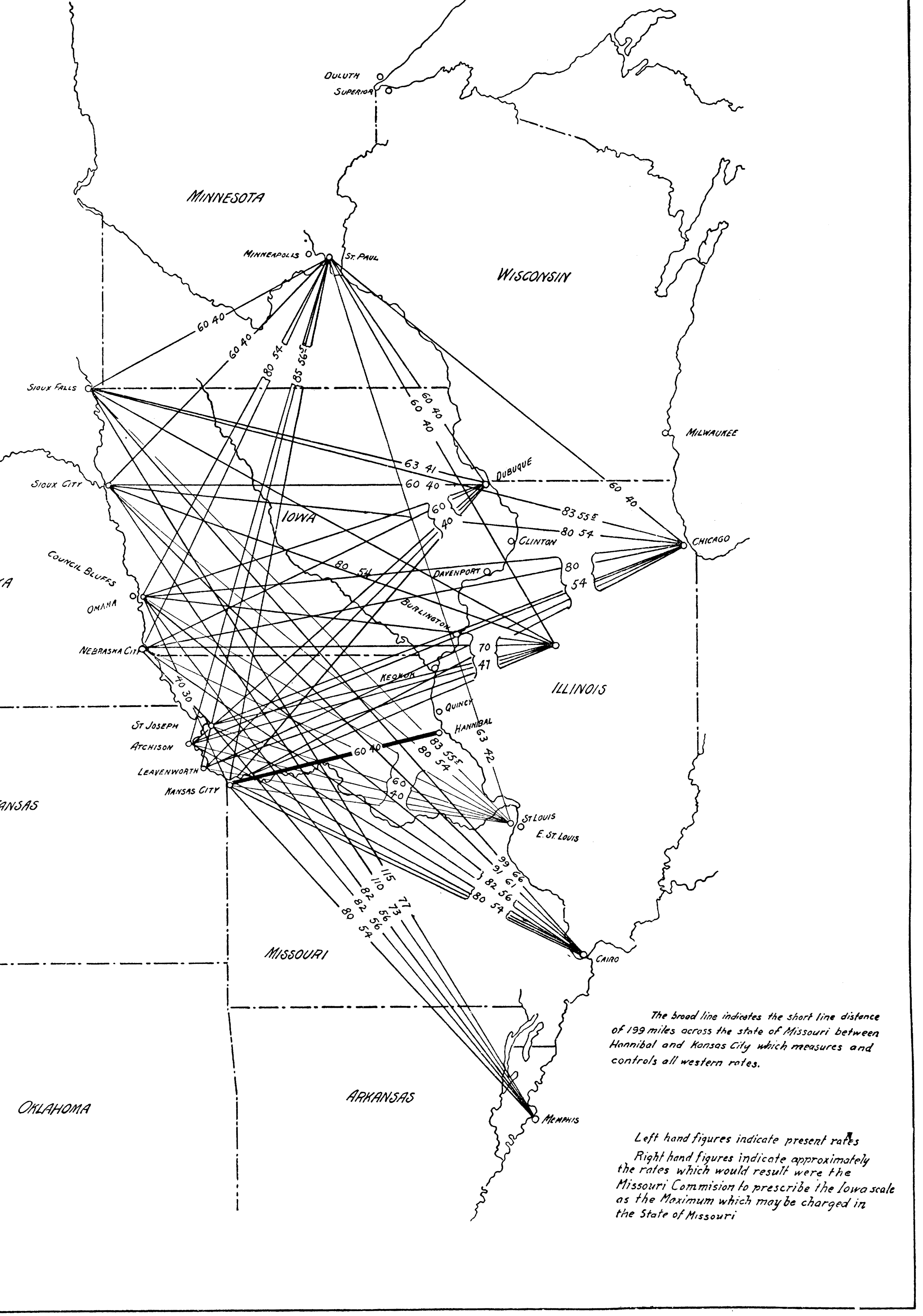


The broad line indicates the short line distance of 199 miles across the state of Missouri between Hannibal and Kansas City which measures and controls all western rates.

Left hand figures indicate present rates

Right hand figures indicate approximately the rates which would result were the Missouri Commision to prescribe the Iowa scale as the Maximum which may be charged in the State of Missouri

20 cents less, than from Chicago to Sioux City, and the same percentage relation must be maintained on the lowered scale.

The immediate result, then, of the fixing by the Missouri Commission of a maximum charge of 40 cents, first class, for the distance of 200 miles between Hannibal, Mo., and Kansas City, Mo., is to fix the rates for all routes shown on the accompanying map of what is termed Western Trunk Line territory:

The outline illustrates only the adjustment of first-class rates. In Western classification territory there are five numbered and five lettered classes, and the other classes all bear a certain percentage relation to the first-class rates. This is true to the extent that any considerable reduction in the rate on first class involves necessary proportionate reductions in the rates on other classes—the severity of any such reduction lessening, of course, as the rates themselves grow less; but the rates on all classes must go down if one goes down, so that the same fixed relation between the classes may be maintained on the lower as on the higher basis.

Similarly, the outline only illustrates the change in the adjustment between the principal basing points in Western Trunk Line territory. But around these basing points are grouped all the adjacent cities and towns; so that an adjustment once reduced from Chicago, or Peoria, or the Mississippi River to the Upper or Lower Missouri River points, a corresponding reduction results from all points, both of origin and of destination, held common with these basing points. So the reductions become automatic, covering all interstate movements throughout the whole territory pictured in the outline.

The illustration thus far deals only with the change in rates on business which may be termed purely local to the territory immediately embraced in the illustration—that is, business which has both origin and destination within the territory. We have not yet touched upon that volume of Eastern business to the Missouri River cities, to St. Paul and Duluth, and to the territory beyond as far west as the States of Utah, Idaho and Montana, or to the southwest including the State of Texas and Territory of New Mexico. Yet the rates on this business are quite as vitally involved. The competitive adjustment between Chicago, Peoria, Memphis, the Mississippi River, and the head of the lakes, as previously described, was originally evolved and has since been maintained in a measure to

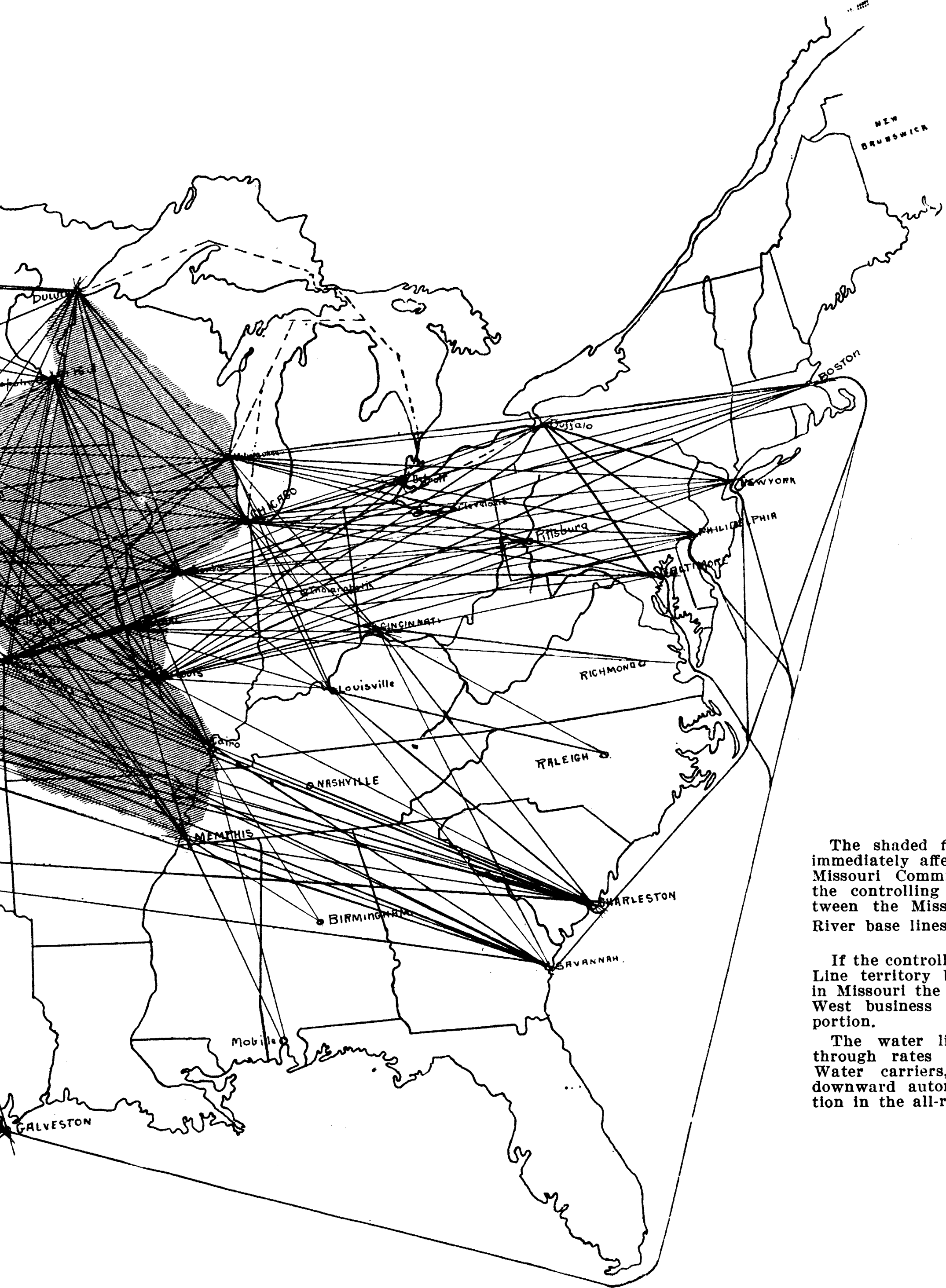
permit this merchandise to move freely by all routes in this Trans-Missouri, Northwestern and Southwestern territory. Whenever the Western factors of the through rates to this territory are reduced, the rates on such through business fall simultaneously with the rates on the local business.

Merchandise for this western territory moves from the East by every conceivable route. Every all-rail line and every conceivable combination of rail lines publish the rates. During lake navigation daily boats carry this merchandise to Chicago, Milwaukee and the head of the lakes. It is handled by steamer in connection with rail lines from every South Atlantic port from Norfolk to Jacksonville. There is a steamer load despatched daily from New York and given to the rail lines at the port of Galveston, Texas. The rate fixed by the authority of the State of Missouri, between Hannibal and Kansas City, and based on purely local considerations, has its leveling effect upon the rates on every pound of this vast traffic. The next map shows the ultimate reach of the rate-making power of Missouri.

It is true that the illustration has proceeded thus far on the assumption that Missouri might make a reduction in its existing class rates, and not on the fact that such reduction has been made. But Iowa has precisely the same control over interstate adjustments that the illustration demonstrates Missouri to have, and as matter of fact East and West class rates are what they are to-day because Iowa some years ago prescribed 60 cents as the maximum charge, first class, for the haul within its borders between the Mississippi and the Missouri rivers. The Iowa distance tariff of 1887 actually measures to-day the revenues of the interstate railroads on all interstate freight passing into or out of or beyond that state.

Besides, Missouri has actually made radical reductions in other rates that illustrate as well the principle of our contention. The legislature of 1905 ordered drastic reductions of rates on grain, flour, lime, salt, cement, stucco, lumber, agricultural implements, furniture, wagons and live stock, and the legislature of 1907 added stone, gravel, and other commodities. The rates have not been published, as the constitutionality of the legislation is in question before the courts, but if the state's right to order the reductions is finally established, the interstate rates on these bulk commodities,


Helena
Bismarck
Boise
Pierre
Sioux Falls
Ogden
Salt Lake City
Cheyenne
Denver
Pueblo
Wichita
Santa Fe
Cairo
MEMPHIS
Mobile
GALVESTON



LEGEND.

The shaded field indicates the territory immediately affected by any change in the Missouri Commission's maximum rate for the controlling distance of 199 miles between the Mississippi River and Missouri River base lines.

If the controlling factor in Western Trunk Line territory be reduced by State action in Missouri the entire revenue on East and West business falls automatically in proportion.

The water lines indicate the principal through rates operated by the Rail and Water carriers, which move upward or downward automatically with any fluctuation in the all-rail rates.

which constitute a large percentage of the carload tonnage of all Western carriers, will come down with them.

The reductions which will result in rates on grain will illustrate. The short line distance rate between the Missouri and Mississippi rivers will be reduced from 13 cents per 100 pounds, on wheat, and 12 cents per 100 pounds on corn and other grain, to 8½ cents per 100 pounds on all grain. The State's action also calls for a reduction of a half cent per hundred pounds in the proportional rate on wheat between Kansas City and Hannibal. This proportional rate of 9 cents is the rate applied on all wheat coming from beyond the Missouri River, and, as in the case of the class rates, it is the pivotal rate in the whole adjustment. If the legislature's action is finally upheld, a readjustment of the whole rate fabric on Western grain will result. There is no more sensitive adjustment in existence than the grain rates. No single part of any of the through rates can be disturbed without disturbing the revenue on a large part of the whole movement.

Competition and market conditions require that the rates on grain from the States of Kansas and Nebraska shall be so adjusted that the grain raised in those states can move eastward freely through either of the primary markets at the Missouri River, Kansas City or Omaha. When these markets are reached, not alone the grain markets of the United States, but the foreign markets as well must be open to the producer, so that the Nebraska or Kansas producer may have the benefit of the best prevailing market price of the world to-day; and the adjustment must be maintained from day to day so that the large grain buyers may take the surplus grain into elevator storage, not only at the Missouri River, but at the large storage points at the Mississippi River, the Ohio River, the lake ports, the milling centers, and the Atlantic and Gulf seaboard, with the full assurance that when the demand makes Eastern or Southern shipment desirable he will have a parity of rates in either direction through any market. If the reduced rates are finally enforced the material reductions within the state will be insignificant compared with the automatic reductions in the interstate adjustment which must follow. The same reduction must be made from Omaha, not only to St. Louis but to the other Mississippi River crossings; to Peoria and Chicago, the gateways to the central states; to Louisville, Evansville, Cairo and Memphis, the market

points for all the southeastern states; to Little Rock, Texarkana, Fort Worth, Dallas and Shreveport, the principal market gateways for the States of Arkansas, Louisiana and Texas; and to Minneapolis, the largest of the milling centers. Any reduction in the rate to the Mississippi River and Chicago means just that much reduction in the revenue on grain moving to Boston, New York, Philadelphia, Baltimore and Newport News for export, as these rates are all made on the Mississippi River combination. And when these rates go down, a similar reduction is forced in the rate to Pensacola, Fla., Mobile, Ala., New Orleans, La., and Port Arthur and Galveston, Texas, for export.

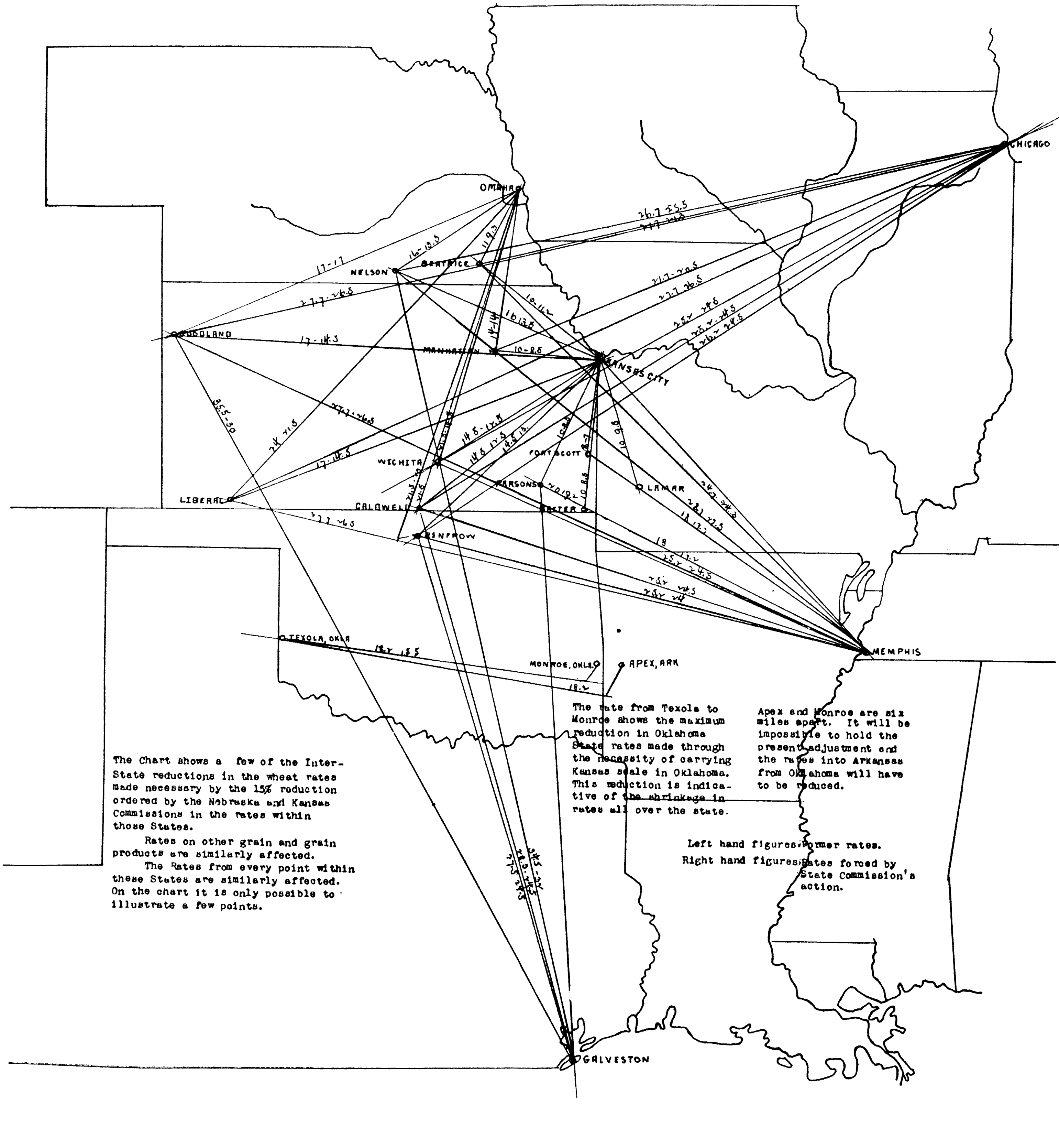
It has never been found feasible to carry local and proportional rates on the same basis, and there is therefore the probability of further reduction in the proportional basis. To what figure the proportional rate on wheat across Missouri might fall as the result of carrying a local rate of 8½ cents is, of course, problematical. The rates up to this time have always been maintained about four cents lower than the local rates. The accompanying chart only illustrates the direct reductions in the existing proportional rates:

Kansas and Nebraska

During the year 1907 the railroad commission of Kansas forced a reduction of 15 per cent in the existing rates on grain within the state. A reduction in grain rates always applies as well on flour, meal and other grain products. The Nebraska commission forced a 15 per cent reduction in state rates, not only on grain and grain products, but on live stock, coal, lumber and fruits and vegetables.

Kansas and Nebraska do not consume a hundredth part of what they produce, and the great bulk of the commodities consumed within these states is produced outside of them. The freight destined from points of origin within either state and moving under the state's mileage rates to points of consumption within the state, is as nothing to that which moves to points beyond the state. That is to say, nearly all the traffic of both the states is interstate, and subject to the influence of the competitive interstate rate adjustment.

The products of Kansas and Nebraska find their primary markets (Kansas City, Kan., and Omaha, Neb.) on the Missouri River at the extreme eastern boundary of the state, and the state regulation fixes the rate at which the product is hauled from points of



The Chart shows a few of the Inter-State reductions in the wheat rates made necessary by the 15% reduction ordered by the Nebraska and Kansas Commissions in the rates within those States.

Rates on other grain and grain products are similarly affected.

The Rates from every point within these States are similarly affected. On the chart it is only possible to illustrate a few points.

The rate from Texola to Monroe shows the maximum reduction in Oklahoma State rates made through the necessity of carrying Kansas scale in Oklahoma. This reduction is indicative of the shrinkage in rates all over the state.

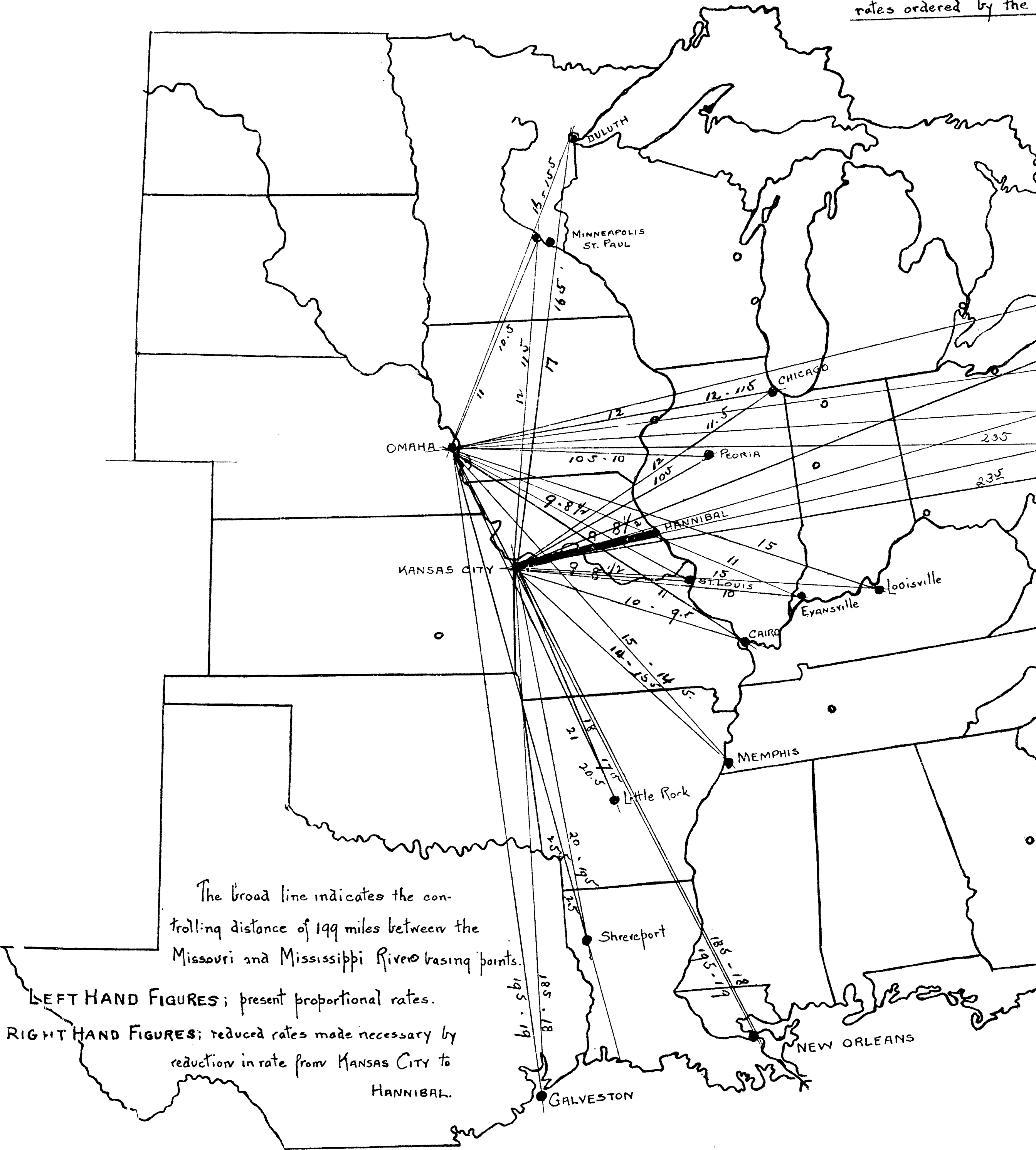
Apex and Monroe are six miles apart. It will be impossible to hold the present adjustment and the rates into Arkansas from Oklahoma will have to be reduced.

Left hand figures: Former rates.

Right hand figures: Rates forced by State Commission's action.

REDUCTION in the WHEAT and FLOUR rate adjustment immediately resulting from reduction

rates ordered by the



EAT and FLOUR rate adjustment immediately resulting from reduction in the STATE mileage rates ordered by the Missouri legislature.

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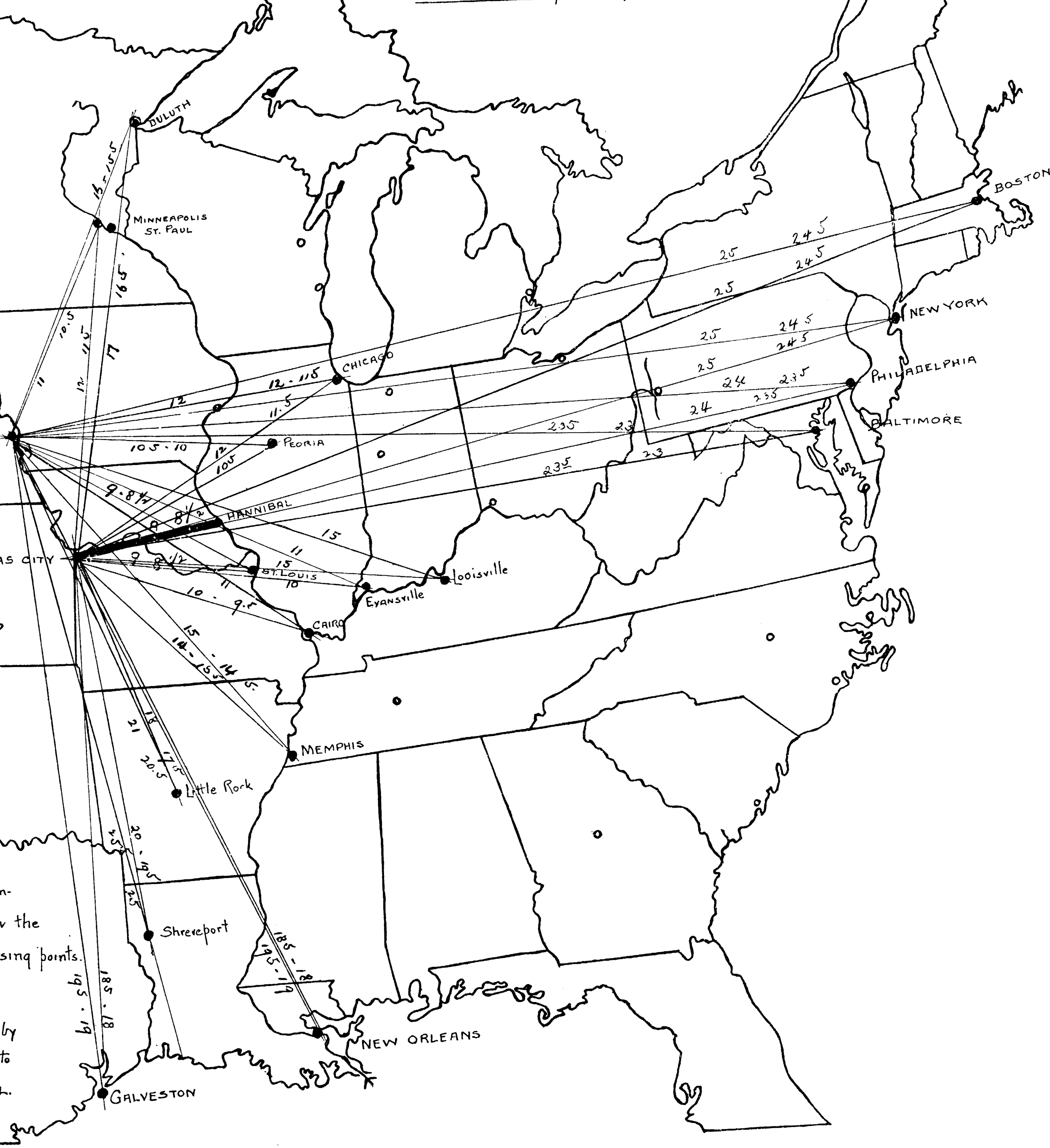


production to these primary markets, no matter what the ultimate destination of the product may be. As a result, the 15 per cent reductions in the grain rates required by both state commissions, have called for a flat reduction of just that amount in all interstate rates, and a corresponding shrinkage in railroad revenues on practically all of the grain raised in both the states.

A contingent result is a horizontal reduction in the rates on Oklahoma grain. The Choctaw line of the Rock Island operates in Oklahoma under a charter which provides that its rates in that state must not be higher than they are in the states from which it enters Oklahoma. The line enters Oklahoma from Kansas, as well as from Arkansas, and the charter provision required an immediate adjustment of the Oklahoma rates on the Kansas scale. With the Oklahoma rates on the Kansas basis it was found impossible to maintain the adjustment formerly prevailing from points in Southern Oklahoma to points in Texas, and a readjustment there was necessary. Similar reductions of the rates to Arkansas points will be required.

The situation clearly illustrates the interdependence of state and interstate rates. The accompanying chart will give a partial illustration of the situation. It can, of course, picture the effect only at a few points. The reductions are general, affecting every point:

Texas

In Texas, state regulation of rates is deliberately designed to control the rates on interstate business both into and out of the state. There is, from the standpoint of the state, excellent reason for this policy; for, aside from its timber and a portion of its grain, little which Texas produces is consumed within the state, and the bulk of the food stuffs, wearing apparel and manufactured articles which its citizens consume or use are imported from other states.

The state commission has always conceived it to be to the state's interest to link its fortunes with the coastwise steamship lines rather than with the all-rail carriers reaching the state through its northern gateways. Consequently the commission has made the port of Galveston the radiating point in its adjustment. The class rates from the eastern seaboard have always been made the exact combination of the steamship rates from New York, Boston,

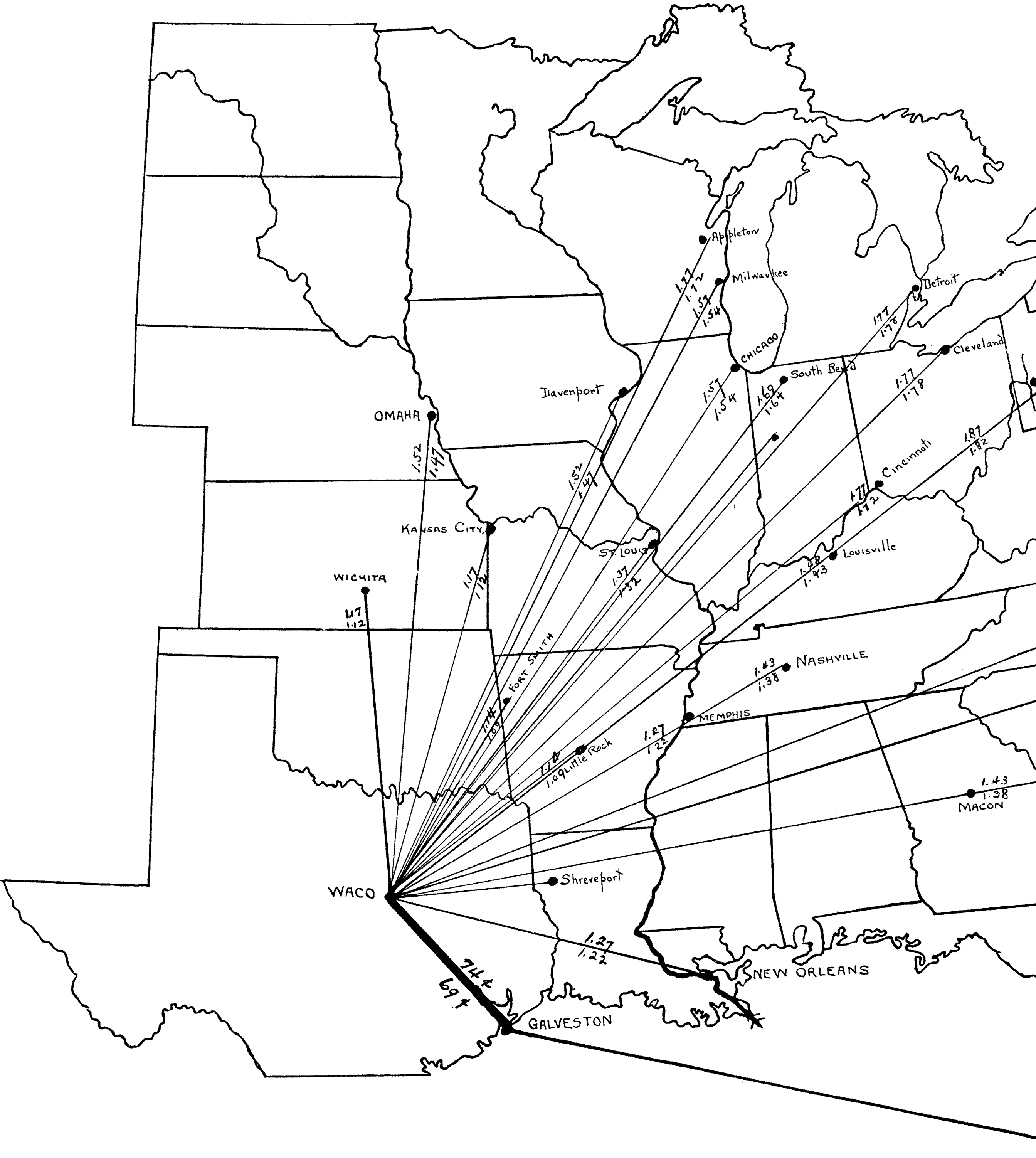
Philadelphia and Baltimore to the port of Galveston, plus the commission's local rates thence to every point in the state. This has forced the rail carriers to group all the producing territory west of seaboard territory, and to maintain a relative adjustment calculated to permit these territories to market their products in Texas in competition with the rates from the seaboard fixed for the rail carriers both in and outside the state by the Texas commission and the steamship lines.

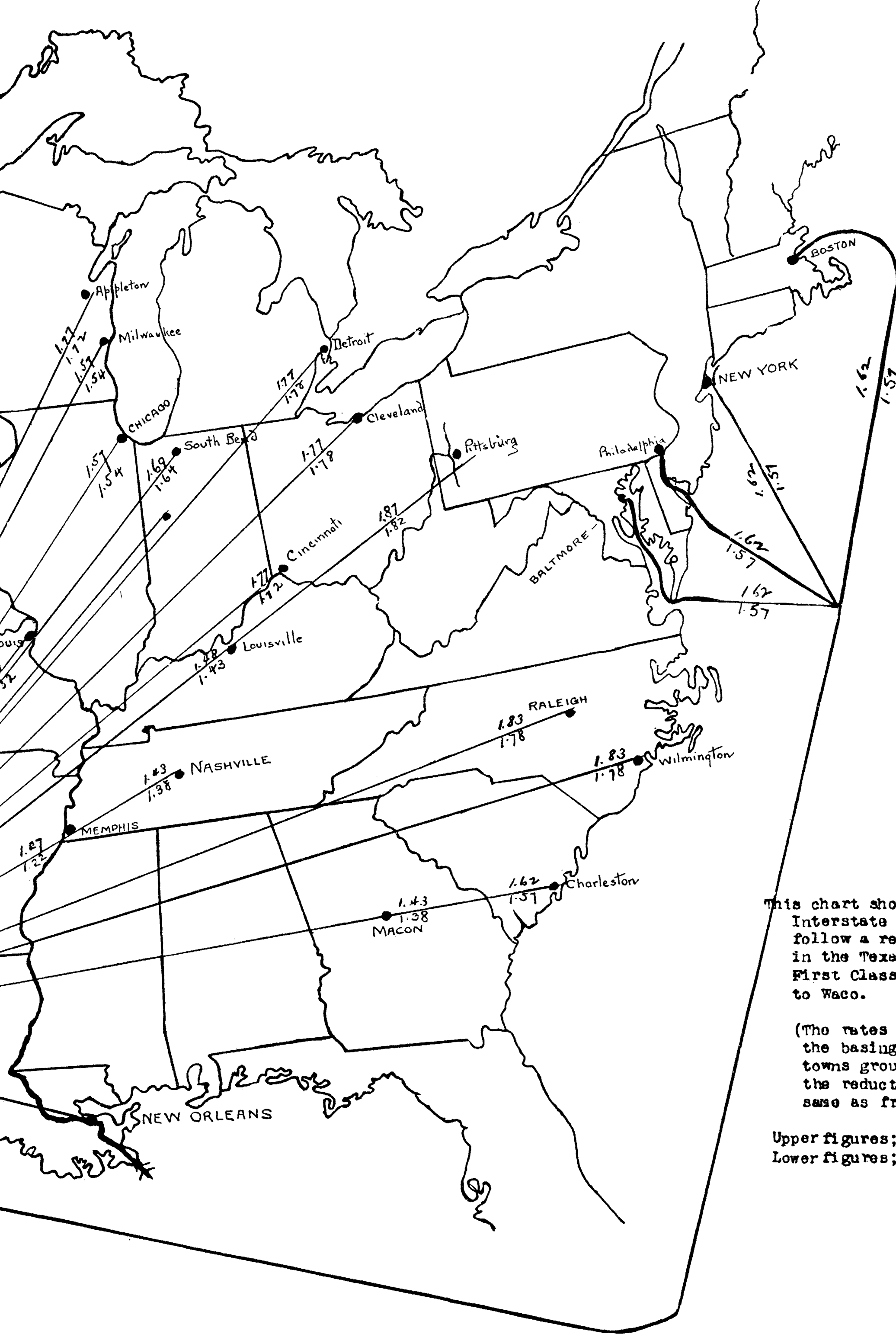
It necessarily follows that whenever the Texas commission reduces a rate from Galveston the revenue of the state carrier on all Texas business originating at the Atlantic seaboard is lowered and the interstate carriers are compelled to make corresponding reductions from every other basing point. The immediate effect of a reduction of five cents in the commission's first class rate from Galveston to Waco is outlined in the accompanying chart:

Texas is above all a cotton-growing state. The wealth of its farming communities and the business of its cities are founded on the production and marketing of this staple. The revenues of the carriers within the state are largely dependent upon the movement of the cotton crop. Texas produces one-quarter of all the cotton grown within the United States. It has, however, no cotton-spinning industry worthy the name. Probably ninety-nine per cent of the cotton grown in the state is sent to New England and southeastern spinning points and to foreign countries. The revenues of the carriers on all this interstate and foreign cotton freight are absolutely dependent upon the rates fixed by the railroad commission of Texas to the port of Galveston.

Three years since, the commission ordered a reduction in cotton rates of 5 cents per 100 pounds or $1.00 per ton. The movement from Texas to interstate and foreign destinations in the fiscal year ending June 30, 1906, was a million and a half tons. The direct result to interstate carriers from this one act of the commission has been an annual shrinkage in their revenues of something like a million and a half of dollars.

A cardinal principle in the three principal classification territories is that valuable commodities such as dry goods, notions, boots and shoes, hats, etc., shall take first-class rates, whether the goods are shipped in carloads or in less than carload quantities. There is no voluntary variation from this in any interstate adjust-


Appleton
Milwaukee
1.77
1.72
1.57
1.54
Detroit
1.77
1.78
CHICAGO
South Bend
Cleveland
Davenport
1.57
1.54
1.69
1.64
1.77
1.78
OMAHA
1.52
1.47
1.52
1.47
1.87
1.82
Cincinnati
1.77
1.72
Kansas City
St. Louis
1.37
1.32
Louisville
1.48
1.43
WICHITA
1.17
1.12
1.17
1.12
Fort Smith
1.14
1.09
NASHVILLE
1.43
1.38
MEMPHIS
1.27
1.22
Little Rock
1.14
1.09
MACON
1.43
1.38
Shreveport
WACO
1.27
1.22
NEW ORLEANS
74¢
69¢
GALVESTON



This chart shows the reduction in Interstate rates which would follow a reduction of Five Cents in the Texas Railroad Commission's First Class Rate from Galveston to Waco.

(The rates shown apply only from the basing points. All other towns group around these and the reduction from all is the same as from the basing point.)

Upper figures; Rates at present in effect.
Lower figures; Rates which would apply following the above mentioned reduction.

ment. The principle has frequently been reviewed without disapproval by the Interstate Commerce Commission. The Texas Commission, however, has taken the opposite view, and in their state classification have fixed Class "A" basis on these commodities when shipped in carload quantities. This action on their part has no force or effect so far as concerns state traffic. None of these commodities are manufactured within the state and no house in the state jobs them in carload quantities. The State Commission's action does, however, reduce the interstate rate on these commodities from New York to interior Texas towns 37 cents per 100 pounds in car-load lots.

That the Texas Commission exercises its rate-making powers with deliberate intent to control the interstate rates for the benefit of its industries appears from the following illustration: The Rock Island has a line running southwest from the State of Kansas, passing diagonally across the Panhandle of Texas into New Mexico and on to El Paso. There are large salt industries on this line at Hutchinson, Kansas, and in the year 1905 the Rock Island, being asked to establish a reasonable rate from Hutchinson into its Panhandle towns, published an average rate of 19½ cents. The average distance is about 300 miles. There are salt plants of considerable importance at Grand Saline, Salt City and Colorado, Texas, and under the State Commission's orders, the Rock Island, in connection with other lines, had in effect an average rate of 20½ cents per 100 pounds from these state salt plants to the Panhandle towns. The average haul to these points is, from Grand Saline, 525 miles; from Colorado, 660; and Salt City, Texas, 690 miles. When the Rock Island's interstate rate came to the attention of the Texas Commission, it ordered the Rock Island's Texas line to non-concur in the reduction, threatening that if the interstate rate were allowed to stay in, they would compel the state carriers to haul salt from these state plants to the Panhandle points for 15 cents per 100 pounds. Needless to say, the interstate rate was withdrawn, and it remains to-day at the Texas maximum rate of 22½ cents. The map illustrates the situation.

Illinois

Recent reductions in class rates in Illinois have forced reductions of the interstate rates between St. Louis, Hannibal, Quincy,

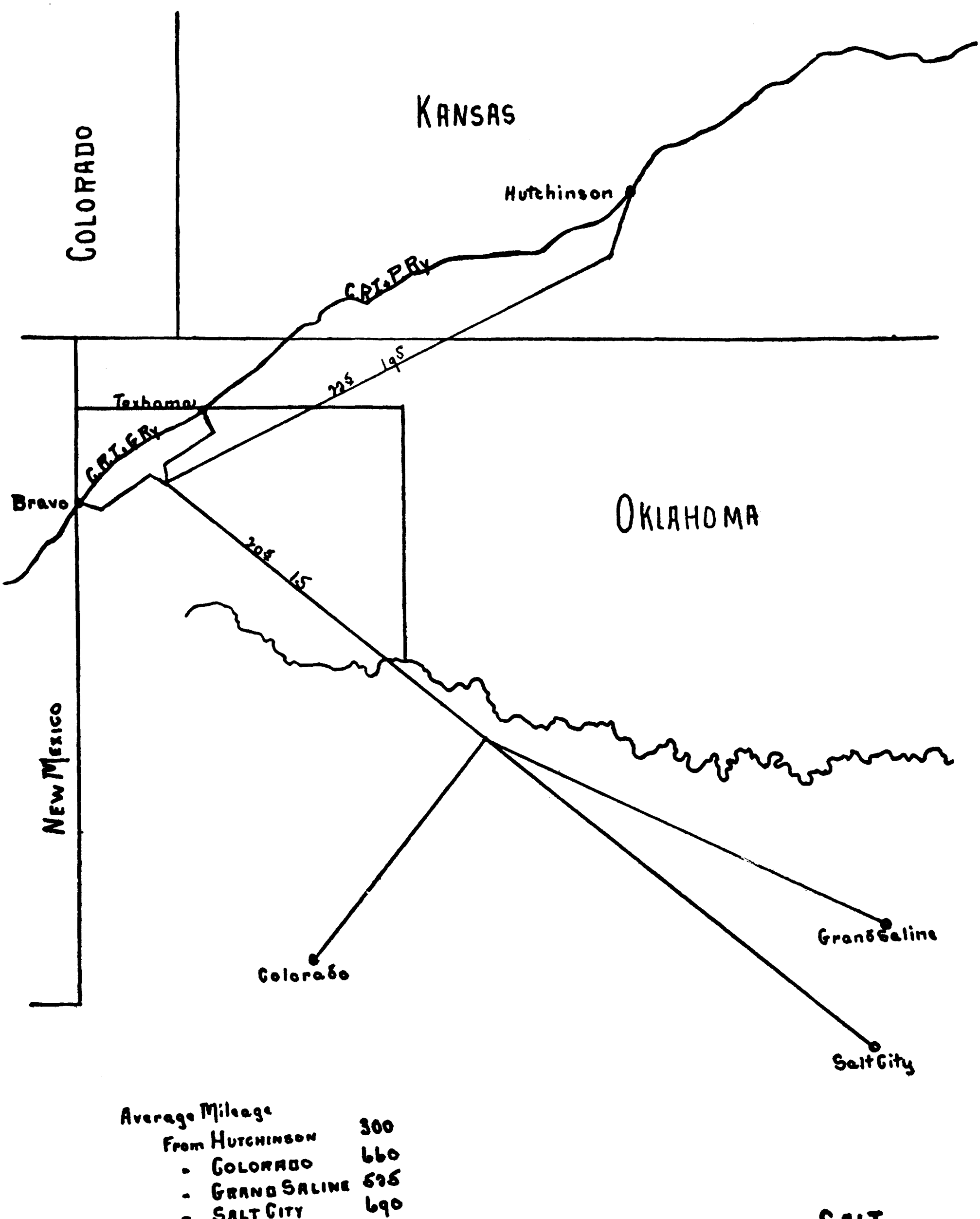


Illustration TEXAS COMMISSION's emergency rate on SALT

Keokuk, Davenport and Dubuque, and will eventually force similar reductions in rates between intermediate local points either wholly interstate or wholly within other states than Illinois.

Arkansas

The Arkansas Commission has prescribed a full line of class and commodity rates which produce an effect on all the rates on merchandise brought into the state from points beyond, similar to the results of the Texas Commission's regulation of the rates in that state.

Minnesota

The Minnesota Commission has fixed a scale of class rates within the state which recently required the leveling down of all rates from Minneapolis, St. Paul and Duluth in Iowa and Dakota points. It was with respect to this situation that Judge Lochren said in the case before him involving the validity of these rates:

> "It would seem to be very difficult to avoid . . . the conclusion that these rates fixed in respect to Minnesota do necessarily and directly affect interstate commerce. . . . I have no doubt that Congress might very properly, under the constitutional provision giving it the entire power of control over interstate commerce, assume control of the avenues of interstate commerce, of the railroads which are engaged in interstate commerce, and of all rates which are collected by those railroads, whether within the states or without the states, because the matter of those rates would affect these avenues of interstate commerce, and might affect their ability to continue as avenues of interstate commerce."

And as to this argument, urged before the Supreme Court in the Minnesota rate case, recently decided, the opinion of Mr. Justice Peckham says:

> "Still another Federal question is urged growing out of the assertion that the laws are, by their necessary effect, an interference with and a regulation of interstate commerce, the grounds for which assertion it is not now necessary to enlarge upon. The question is not, at any rate, frivolous."